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2 August 2011

For immediate release

## **RECOMMENDED CASH OFFER**

**for**

## **NORTHUMBRIAN WATER GROUP PLC**

**by**

## **UK WATER (2011) LIMITED**

**(a company indirectly wholly owned by a consortium comprising  
Cheung Kong Infrastructure Holdings Limited, Cheung Kong (Holdings) Limited  
and Li Ka Shing Foundation Limited)**

**(to be implemented by way of a Scheme of Arrangement  
under Part 26 of the Companies Act 2006)**

### **Summary**

- The boards of directors of Northumbrian Water Group plc ("**Northumbrian**") and UK Water (2011) Limited ("**UK Water**") are pleased to announce that they have reached agreement on the terms of a recommended cash offer by which all of the issued share capital of Northumbrian will be acquired by UK Water.
- UK Water is a newly incorporated company, indirectly wholly-owned by a consortium led by Cheung Kong Infrastructure Holdings Limited ("**CKI**"), which also includes Cheung Kong (Holdings) Limited ("**CKH**") and Li Ka Shing Foundation Limited (the "**Foundation**") (each a "**Consortium Member**" and together the "**Consortium**").
- Under the terms of the Acquisition, Northumbrian Shareholders will receive 465 pence in cash for each Northumbrian Share, which values Northumbrian's entire issued share capital at approximately £2,412 million.
- Northumbrian Shareholders on the register on 12 August 2011 will also remain entitled to receive the net final dividend of 9.57 pence per Northumbrian Share in respect of the year ended 31 March 2011, to be paid on 9 September 2011.
- 465 pence per Northumbrian Share represents a premium of:
  - 26.4 per cent. to the closing price per Northumbrian Share of 367.9 pence at the close of business on 23 June 2011 (being the last Business Day prior to the press speculation concerning potential interest in Northumbrian);
  - 21.4 per cent. to the closing price per Northumbrian Share of 383.0 pence at the close of business on 24 June 2011 (being the last Business Day prior to the announcement by CKI that it was in the preliminary stages of assessing a potential cash offer for Northumbrian); and
  - 38.4 per cent. to the average closing price per Northumbrian Share of approximately 335.9 pence for the six months ended 24 June 2011.

- It is intended that the Acquisition will be implemented by way of a court-sanctioned Scheme of Arrangement under Part 26 of the Companies Act.
- CKI has sold Cambridge Water to HSBC. This transaction completed prior to this announcement on 2 August 2011.
- The directors of Northumbrian, who have been so advised by Deutsche Bank, consider the terms of the Acquisition to be fair and reasonable. In providing its advice, Deutsche Bank has taken into account the commercial assessments of the directors of Northumbrian.
- The directors of Northumbrian intend to recommend unanimously that Northumbrian Shareholders vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting, as those directors that hold Northumbrian Shares have irrevocably undertaken to do in respect of their entire beneficial holdings of Northumbrian Shares and those of their family members (representing, in aggregate, approximately 0.07 per cent. of the existing issued share capital of Northumbrian).
- Ontario Teachers' Pension Plan Board, which has a beneficial holding of Northumbrian Shares representing approximately 26.8 per cent. of Northumbrian's existing issued share capital, has irrevocably undertaken to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting in respect of its entire beneficial holding. It has also undertaken not to bid, or participate in any bid, for Northumbrian.
- In addition, UK Water has received non-binding letters of intent from JP Morgan Asset Management and Artemis Investment Management LLP confirming their intention to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting in respect of Northumbrian Shares representing approximately 3.8 and 2.9 per cent. respectively of Northumbrian's existing issued share capital.
- In total, therefore, UK Water has received irrevocable undertakings and non-binding letters of intent to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting in respect of Northumbrian Shares, representing, in aggregate, approximately 33.6 per cent. of Northumbrian's existing issued share capital.
- The Scheme Document, containing further information about the Acquisition and notices of the Court Meeting and General Meeting, together with the forms of proxy, will be posted to Northumbrian Shareholders and (for information purposes only) participants in the Northumbrian Share Schemes as soon as practicable (and, in any event, not later than 30 August 2011, unless otherwise agreed with the Panel). The Acquisition is conditional on, among other things, the sanction of the Scheme by the Court and the approval by a majority in number of Scheme Shareholders voting at the Court Meeting, representing not less than 75 per cent. in value of the Scheme Shares that are eligible to vote and voted.
- RBC is acting as lead financial adviser to UK Water. HSBC is acting as financial adviser to UK Water.
- Deutsche Bank is acting as exclusive financial adviser and corporate broker to Northumbrian.

Commenting on the Acquisition on behalf of the Consortium, H. L. Kam, Group Managing Director of CKI, Deputy Managing Director of CKH and a director of UK Water, said:

*"Northumbrian has an excellent reputation in the UK water sector. We attach great importance to the skills and experience of the existing management and employees of Northumbrian and believe they will be an important factor in the continuing success of the Northumbrian Group. Through our experience with CKI's other businesses in the UK –including UK Power Networks in London, Eastern England and South East England; Seabank Power in Bristol; and Northern Gas Networks in Northern England – we appreciate the critical importance of Northumbrian's business to the communities it serves. We welcome the opportunity to support Northumbrian's strategy of upholding operational excellence and service standards to its communities in North East and South East England."*

Commenting on the Acquisition, Sir Derek Wanless, Chairman of Northumbrian said:

*“We have reached agreement with the Consortium on its offer for the Company. The offer represents an attractive premium to both the regulated capital value of Northumbrian Water Limited and the Company's share price before recent speculation began. The directors believe that, whilst Northumbrian would have a strong future as an independent company, the Consortium's offer to Northumbrian shareholders fairly values the current and future prospects of the Company. The directors also welcome the statements that the Consortium has made with respect to Northumbrian's management and employees, its location of business and its support for the communities it serves.”*

**This summary should be read in conjunction with, and is subject to, the full text of the following announcement (including the Appendices). The Acquisition will be subject to the Conditions and further terms set out in Appendix A to this announcement and to the full terms and Conditions to be set out in the Scheme Document. Appendix B to this announcement contains the bases and sources of certain information contained in this announcement. Appendix C provides details of the irrevocable undertakings and letters of intent received by UK Water. Appendix D contains definitions of certain terms used in this summary and this announcement.**

In accordance with Rule 19.11 of the City Code, a copy of this announcement will be published on the following websites: [www.nwg.co.uk](http://www.nwg.co.uk) and [www.cki.com.hk](http://www.cki.com.hk).

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## **Further Information**

*This announcement is not intended to, and does not, constitute, or form part of, an offer or invitation to sell or the solicitation of an offer to subscribe for or buy or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise, nor shall there be any sale, issuance or transfer of the securities in any jurisdiction in contravention of applicable law. Any vote in respect of the Scheme or other response in relation to the Acquisition should be made only on the basis of the information in the Scheme Document or any document by which the Acquisition is made. Northumbrian and UK Water urge Northumbrian Shareholders to read the Scheme Document when it becomes available because it will contain important information relating to the Acquisition.*

*Whether or not certain Northumbrian Shares are voted at the Court Meeting or the General Meeting, if the Scheme becomes Effective, those Northumbrian Shares will be cancelled pursuant to the Scheme in return for the payment of 465 pence in cash per Northumbrian Share.*

*RBC and HSBC, which are authorised and regulated in the United Kingdom by the Financial Services Authority, are acting for UK Water and no one else in connection with the Acquisition and this announcement and will not be responsible to anyone other than UK Water for providing the protections afforded to their respective clients or for providing advice in connection with the Acquisition or any matter referred to herein.*

*Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFin – Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of Deutsche Bank AG's authorisation and regulation by the Financial Services Authority are available on request. Deutsche Bank AG, London Branch is acting as financial adviser to Northumbrian and no one else in connection with the contents of this announcement and will not be responsible to anyone other than Northumbrian for providing the protections afforded to clients of Deutsche Bank AG, London Branch, nor for providing advice in relation to any matters referred to herein.*

## **Overseas Jurisdictions**

*The availability of the Acquisition to Northumbrian Shareholders who are not resident in and citizens of the United Kingdom may be affected by the laws of the relevant jurisdictions in which they are located or of which they are citizens. Persons who are not resident in the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdictions. Further details in relation to overseas shareholders will be contained in the Scheme Document.*

*The release, publication or distribution of this announcement in jurisdictions other than in the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe, any applicable requirements. Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies involved in the Acquisition disclaim any responsibility or liability for the violation of such restrictions by any person. This announcement has been prepared for the purposes of complying with English law, the Listing Rules, the rules of the London Stock Exchange and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of any jurisdiction outside the United Kingdom.*

*The Acquisition will not be made, directly or indirectly, in, into or from any jurisdiction where to do so would violate the laws in that jurisdiction. Accordingly, copies of this announcement and formal documentation relating to the Acquisition will not be and must not be, mailed or otherwise*

forwarded, distributed or sent in, into or from any jurisdiction where to do so would violate the laws of that jurisdiction.

### **Notice to US investors**

*US Holders should note that the Acquisition relates to the shares of a UK company, is subject to UK disclosure requirements (which are different from those of the United States) and is proposed to be made by means of a scheme of arrangement provided for under English law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules under the US Exchange Act. Accordingly, the Scheme is subject to the disclosure requirements and practices applicable in the UK to schemes of arrangement which differ from the disclosure requirements of the United States tender offer rules. Financial information included in this announcement has been prepared, unless specifically stated otherwise, in accordance with accounting standards applicable in the UK and thus may not be comparable to the financial information of United States companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. If UK Water exercises its right to implement the Acquisition by way of a Takeover Offer, the Takeover Offer will be made in compliance with applicable United States laws and regulations.*

*The receipt of cash pursuant to the Acquisition by a US Holder as consideration for the cancellation of its Northumbrian Shares pursuant to the Scheme may be a taxable transaction for United States federal income tax purposes and under applicable United States state and local, as well as foreign and other, tax laws. Each Northumbrian Shareholder is urged to consult his independent professional adviser immediately regarding the tax consequences of the Acquisition applicable to him.*

*It may be difficult for US Holders to enforce their rights and any claim arising out of the US federal securities laws, since Northumbrian is located in a non-US jurisdiction, and some or all of its officers and directors may be residents of a non-US jurisdiction. US Holders may not be able to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.*

*In accordance with normal UK practice and pursuant to Rule 14e-5(b) of the US Exchange Act, UK Water or its nominees, or its brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, Northumbrian Shares outside of the United States, other than pursuant to the Acquisition, until the date on which the Acquisition and/or Scheme becomes effective, lapses or is otherwise withdrawn. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be disclosed as required in the UK, will be reported to the Regulatory News Service of the London Stock Exchange and will be available on the London Stock Exchange website at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.*

### **Forward-looking Statements**

*This announcement (including information incorporated by reference in this announcement), oral statements made regarding the Acquisition, and other information published by UK Water and Northumbrian contain statements that are or may be deemed to be "forward-looking statements", including for the purposes of the US Private Securities Litigation Reform Act of 1995. These statements are prospective in nature and are not based on historical facts, but rather on the current expectations of the management of UK Water and Northumbrian about future events and are naturally subject to uncertainty and changes in circumstances which could cause actual events to differ materially from the future events expected or implied by the forward-looking statements. The forward-looking statements contained herein include statements about the expected effects of the Acquisition on Northumbrian, UK Water, the expected timing and scope*

of the Acquisition, synergies, other strategic options and all other statements in this announcement other than historical facts. Forward-looking statements may (but will not always) include, without limitation, statements typically containing words such as “targets”, “plans”, “aims”, “intends”, “expects”, “anticipates”, “believes”, “estimates”, “will”, “may”, “budget”, “forecasts” and “should” and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. These forward-looking statements are not guarantees of future performance and have not been reviewed by the auditors of UK Water or Northumbrian. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the satisfaction of the Conditions to the Acquisition, as well as additional factors, such as changes in economic conditions, changes in the level of capital investment, success of business and operating initiatives and restructuring objectives, customers’ strategies and stability, changes in the regulatory environment, fluctuations in interest and exchange rates, the outcome of litigation, government actions and natural phenomena such as floods, earthquakes and hurricanes. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. Investors should not place undue reliance on any forward-looking statements and neither UK Water nor Northumbrian, nor any of their respective advisors, associates, directors or officers undertakes any obligation to update publicly, express by disclaim or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required or provides any representation, assurance or guarantee that the occurrence of events expressed or implied in any forward-looking statement in this announcement will actually occur.

#### **Not a profit forecast**

No statement in this announcement is intended as a profit forecast or profit estimate and no statement in this announcement should be interpreted to mean that the future earnings per share of the UK Water group as enlarged by the Acquisition, UK Water and/or Northumbrian for current or future financial years will necessarily match or exceed the historical or published earnings per share of UK Water or Northumbrian.

#### **Dealing Disclosure Requirements**

Under Rule 8.3(a) of the City Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified. An Opening Position Disclosure must contain details of the person’s interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a paper offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any paper offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any paper offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person’s interests and short positions in, and rights to subscribe for, any relevant securities of

*each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of the relevant dealing.*

*If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).*

*Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure, you should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129.*

2 August 2011

## **RECOMMENDED CASH OFFER**

**for**

## **NORTHUMBRIAN WATER GROUP PLC**

**by**

## **UK WATER (2011) LIMITED**

**(a company indirectly wholly owned by a consortium comprising  
Cheung Kong Infrastructure Holdings Limited, Cheung Kong (Holdings) Limited  
and Li Ka Shing Foundation Limited)**

**(to be implemented by way of a Scheme of Arrangement  
under Part 26 of the Companies Act 2006)**

### **1. Introduction**

The boards of directors of Northumbrian Water Group plc ("**Northumbrian**") and UK Water (2011) Limited ("**UK Water**") are pleased to announce that they have reached agreement on the terms of a recommended cash offer by which all of the issued share capital of Northumbrian will be acquired by UK Water.

UK Water is a newly incorporated company, indirectly wholly-owned by a consortium led by Cheung Kong Infrastructure Holdings Limited ("**CKI**"), which also includes Cheung Kong (Holdings) Limited ("**CKH**") and Li Ka Shing Foundation Limited (the "**Foundation**") (each a "**Consortium Member**" and together the "**Consortium**").

### **2. The Acquisition**

It is intended that the Acquisition will be implemented by way of a court-sanctioned scheme of arrangement under Part 26 of the Companies Act.

Under the terms of the Acquisition, which will be subject to the Conditions and further terms set out in Appendix A to this announcement and to be set out in the Scheme Document, Northumbrian Shareholders at the Scheme Record Time will be entitled to receive:

**for each Northumbrian Share 465 pence in cash**

which values Northumbrian's entire issued share capital at approximately £2,412 million.

Northumbrian Shareholders on the register on 12 August 2011 will also remain entitled to receive the net final dividend of 9.57 pence per Northumbrian Share in respect of the year ended 31 March 2011, to be paid on 9 September 2011.

465 pence per Northumbrian Share represents a premium of:

- 26.4 per cent. to the closing price per Northumbrian Share of 367.9 pence at the close of business on 23 June 2011 (being the last Business Day prior to the press speculation concerning potential interest in Northumbrian);

- 21.4 per cent. to the closing price per Northumbrian Share of 383.0 pence at the close of business on 24 June 2011 (being the last Business Day prior to the announcement by CKI that it was in the preliminary stages of assessing a potential cash offer for Northumbrian); and
- 38.4 per cent. to the average closing price per Northumbrian Share of approximately 335.9 pence for the six months ended 24 June 2011.

### **3. Background to and reasons for the Acquisition**

CKI has a significant presence in infrastructure investment and management in the United Kingdom and, alongside group companies, has jointly invested in assets including:

- UK Power Networks (100 per cent. ownership by Consortium Members and their affiliates, with 40 per cent. held by CKI and 20 per cent. by the Foundation), which was acquired in November 2010 from Electricité de France for £5.8 billion and forms the second largest group of electricity distribution companies in the UK. It comprises three distribution networks covering London, South East England, and the East of England, as well as non-regulated long-term contracts to operate and maintain private electricity distribution networks.
- Northern Gas Networks (88.4 per cent. ownership by CKI and its affiliates), which is one of eight major gas distribution networks in the United Kingdom, with a Regulated Asset Value of over £1.6 billion, and which serves over 2.6 million customers in the North of England.
- Seabank Power (50 per cent. ownership by CKI and its affiliates), which is a joint venture with Scottish and Southern Energy to own and operate the 1,140MW Seabank Power Station in Bristol and whose capacity is sold under long-term contract to SSE Energy Supply Ltd.

CKI and the Foundation also each hold a 4.75 per cent. interest in Southern Water and CKI previously owned 100 per cent. of Cambridge Water (see paragraph 4 below).

CKI would like to make a further significant investment in the regulated utilities sector in the UK, and in particular the water industry, a sector with which it is very familiar. CKI and the other Consortium Members recognise that Northumbrian is an asset of high quality and believe that the Acquisition represents an excellent investment opportunity.

### **4. Cambridge Water**

CKI has sold Cambridge Water to HSBC. This transaction completed prior to this announcement on 2 August 2011.

### **5. Background to and reasons for the recommendation**

Since its IPO in May 2003, Northumbrian has delivered consistent returns to shareholders through its focus on delivering high quality, sustainable water and sewerage services to its customers.

During this period, Northumbrian has invested over £1.6 billion in developing and maintaining its assets across its core regions in the north east of England, Essex and Suffolk. Northumbrian's regulatory capital base has grown from £2.2 billion at 30 September 2003 to £3.3 billion at 31 March 2011. Total shareholder returns have been greater than 550 per cent. over the period since IPO.

The directors consider that Northumbrian is well-placed to continue its successful strategy, generating significant shareholder value and would have a strong future as an independent business. However, the directors also believe that the Consortium's offer is at a level which fairly values the current and future prospects of the Company. At 465 pence, the Consortium's offer represents a premium of approximately 26.4 per cent. to the closing price of 367.9 pence per

Northumbrian Share on 23 June 2011 (being the last Business Day prior to press speculation concerning potential interest in Northumbrian) and a premium of approximately 38.4 per cent. to the average closing price of 335.9 pence per Northumbrian Share over the six months ended 24 June 2011 (being the last Business Day prior to the announcement by CKI that it was in the preliminary stages of assessing a potential cash offer for Northumbrian).

The directors have also taken consideration of the Consortium's strong track record of investment in regulated and non-regulated utility and infrastructure assets in the UK. Given the critical importance of Northumbrian's business to the communities that it serves, the directors welcome the statements that the Consortium has made with respect to Northumbrian's management and employees and its location of business.

## **6. Recommendation**

The directors of Northumbrian, who have been so advised by Deutsche Bank, consider the terms of the Acquisition to be fair and reasonable. In providing its advice, Deutsche Bank has taken into account the commercial assessments of the directors of Northumbrian.

The directors of Northumbrian intend to recommend unanimously that Northumbrian Shareholders vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting, as those directors that hold Northumbrian Shares have irrevocably undertaken to do in respect of their entire beneficial holdings of Northumbrian Shares and those of their family members (representing approximately 0.07 per cent. of the existing issued share capital of Northumbrian).

## **7. Irrevocable undertakings and letters of intent**

UK Water has received an irrevocable undertaking from Ontario Teachers' Pension Plan Board, which has a beneficial holding of Northumbrian Shares representing approximately 26.8 per cent. of Northumbrian's existing issued share capital:

- to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and
- if the Acquisition is subsequently structured as a Takeover Offer, to accept such Takeover Offer made by UK Water.

Ontario Teachers' Pension Plan Board has also undertaken to UK Water not to bid, or participate in any bid, for Northumbrian.

The undertakings given by Ontario Teachers' Pension Plan Board shall lapse, *inter alia*, if:

- the Scheme Document or the Offer document, as the case may be, is not published within 28 days after the date of this announcement (or within such longer period as to which the Panel consents, not to be longer than 60 days);
- UK Water announces that it does not intend to proceed with the Scheme or make the Takeover Offer (as applicable) and no new, revised or replacement Scheme or Takeover Offer is announced in accordance with Rule 2.5 of the City Code at the same time;
- the Scheme or Takeover Offer terminates or is withdrawn (or, in the case of the Scheme, the Scheme otherwise becomes incapable of ever becoming effective) and no new, revised or replacement Scheme or Takeover Offer has been announced, in accordance with Rule 2.5 of the City Code, in its place or is announced, in accordance with Rule 2.5 of the City Code, at the same time; or
- a third party not acting in concert (as such item is defined in the City Code) with UK Water announces a firm intention to make an offer for Northumbrian, whether by offer or scheme of arrangement, at a price equal to or exceeding 488.25 pence per Northumbrian Share.

UK Water has also received irrevocable undertakings: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water, from all of the directors of Northumbrian who hold shares in respect of their entire beneficial holdings of Northumbrian Shares and those of their family members (amounting to, in aggregate, 354,976 Northumbrian Shares, representing approximately 0.07 per cent. of the existing issued share capital of Northumbrian). These undertakings shall only lapse if:

- UK Water announces that it does not intend to proceed with the Scheme or make the Takeover Offer (as applicable) and no new, revised or replacement Scheme or Takeover Offer is announced in accordance with Rule 2.5 of the City Code at the same time; or
- the Scheme or Takeover Offer lapses or is withdrawn and no new, revised or replacement Scheme or Takeover Offer has been announced, in accordance with Rule 2.5 of the City Code, in its place or is announced, in accordance with Rule 2.5 of the City Code, at the same time.

In addition, UK Water has received non-binding letters of intent from JP Morgan Asset Management and Artemis Investment Management LLP confirming their intention: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water, in respect of 19,891,674 and 15,082,281 Northumbrian Shares respectively, representing approximately 3.8 and 2.9 per cent. respectively of Northumbrian's existing issued share capital. These letters of intent do not state any circumstances in which they will lapse.

Further details of these irrevocable undertakings and letters of intent are set out in Appendix C to this announcement.

## **8. Information on the Consortium**

The Consortium comprises CKI, CKH and the Foundation.

### ***CKI***

CKI is the largest publicly listed infrastructure company in Hong Kong and is part of the Cheung Kong and Hutchison Whampoa group of companies, which together have a combined market capitalisation of approximately £70 billion. Globally it is a leading infrastructure investor with diversified investments in energy, transportation, and water businesses operating in Hong Kong, Mainland China, Australia, the United Kingdom, Canada, New Zealand and the Philippines.

CKI has built a strong portfolio of infrastructure investments in the energy sector and in particular regulated assets. These investments have generated a steady cash flow and attractive returns for the Cheung Kong Group.

CKI has also invested in water businesses in the UK and Australia with the acquisitions of Cambridge Water (2004 to 2011) and AquaTower (2004 to date). CKI also has a 4.75 per cent. interest in Southern Water in the UK.

### ***CKH***

CKH is a property development and strategic investment company. The company is one of the largest developers in Hong Kong of residential, commercial and industrial properties, with about one in seven private residences in Hong Kong being developed by the company.

With a 49.97 per cent. interest, CKH is the largest shareholder of Hutchison Whampoa Ltd, operating in ports and related services, property and hotels, retail, energy, infrastructure, investments and others, and telecommunications.

The company also has substantial interests and operations in life sciences and other businesses.

## ***The Foundation***

The Foundation is a charitable organisation established by Mr. Li Ka-shing to nurture a culture of giving and to co-ordinate donations towards educational, healthcare, cultural and community welfare projects. The Foundation makes selective investment in quality projects both in Hong Kong and overseas from time to time to increase capital return for its charitable objectives.

## **9. Information on UK Water**

UK Water is a private limited company incorporated in England and Wales on 28 January 2011. UK Water has not traded since its date of incorporation, nor has it entered into any obligations other than in connection with the Acquisition and the financing of the Acquisition. The current directors of UK Water are H. L. Kam, Edmond Ip and Andrew Hunter.

RBC is acting as lead financial adviser to UK Water. HSBC is acting as financial adviser to UK Water.

## **10. Information on Northumbrian**

### ***Regulated operations***

Northumbrian owns a number of companies, the largest of which, Northumbrian Water Limited, is one of the ten regulated water and sewerage businesses in England and Wales. Northumbrian Water Limited operates in the north east of England, where it trades as Northumbrian Water, and in the south east of England, where it trades as Essex & Suffolk Water. Northumbrian serves 2.7 million people in the north with water and sewerage services and 1.8 million people in the south with water services in a combined area of over 12,260 square kilometres.

### ***Other operations***

Northumbrian controls a number of special purpose companies which have water and waste water contracts in Scotland, Ireland and Gibraltar. Through its holding in Agrer, incorporated in Belgium, the company also carries out project work in developing countries with a number of overseas aid-funded agencies.

Northumbrian is the owner of Kielder reservoir, the largest man-made reservoir in northern Europe, holding just under 200 billion litres of water. Northumbrian owns and operates the reservoir and is responsible for the management of the reservoir in accordance with the Environment Agency operating agreement. Northumbrian has a long term agreement with RWE nPower for it to operate and sell the energy from Northumbrian's hydroelectric power station at Kielder Water, which is the largest in England.

### ***Financial information on Northumbrian***

For the year ended 31 March 2011, Northumbrian reported revenues of £738.1 million (2010: £704.7 million) and profit before taxation from continuing operations of £181.0 million (2010: £170.2 million). Net assets as at 31 March 2011 were £475.9 million (2010: £313.9 million).

As announced in Northumbrian's Interim Management Statement on 28 July 2011, trading for the period 1 April 2011 to 27 July 2011 has been in line with expectations.

Water and sewerage charges at the Northumbrian Group's principal subsidiary, Northumbrian Water Limited, have increased by 8.5 per cent. for 2011/12 (in line with the application of the K factor of 3.8 per cent. and 4.7 per cent. in respect of the November 2010 Retail Price Index).

Operating costs for the 12 months to 31 March 2012 are expected to increase by around 3 per cent., reflecting inflationary pressures and new commitments resulting from the adoption of private drains and sewers and the Carbon Reduction Commitment, partially offset by efficiencies. Delivery of Northumbrian's efficiency programme is on schedule and, as a result, the business is ahead of the final determination profile in spite of these new commitments.

Capital investment in the regulated business is expected to progress in line with the final determination for the year. Northumbrian's major projects for the expansion of Abberton reservoir and construction of an advanced anaerobic digestion plant at Howdon are progressing well and remain on schedule.

#### **11. Management and employees**

UK Water attaches great importance to the skills and experience of the existing management and employees of the Northumbrian Group and believes they will be an important factor in the continuing success of the Northumbrian Group. Accordingly, UK Water confirms that the existing employment rights, including pension entitlements, of the management and employees of the Northumbrian Group will be fully safeguarded.

UK Water has no intention to change the major locations of the Northumbrian Group's places of business or to re-deploy the Northumbrian Group's fixed assets and no proposals exist to change materially the conditions of employment of any of the Northumbrian Group's employees.

#### **12. Northumbrian Share Schemes**

The Acquisition will affect share options and incentive awards granted under the Northumbrian Share Schemes issued by Northumbrian. Participants in the Northumbrian Share Schemes will be contacted regarding the effect of the Acquisition on their rights under these schemes and appropriate proposals will be made to such participants in due course.

#### **13. Financing of the Acquisition**

The cash consideration payable under the Acquisition will be funded using a mixture of equity and debt funding.

Approximately £2,200 million of funding for the Acquisition is being provided by the Consortium by the subscription of shares in UK Water and/or loan notes or other instruments issued by UK Water (in each case through one or more intermediate holding companies). CKI, CKH and the Foundation have committed to provide equity funding to UK Water (through such intermediate holdings companies) in the following proportions: CKI (40 per cent.), CKH (40 per cent.), and the Foundation (20 per cent.).

The balance of the consideration due under the Acquisition is being made available by way of debt finance pursuant to a credit agreement dated 31 July 2011 between UK Water and the Royal Bank of Canada, HSBC and Barclays Capital.

RBC and HSBC confirm that they are satisfied that sufficient financial resources are available to UK Water to enable it to satisfy in full the cash consideration payable under the Acquisition.

#### **14. Structure of the Acquisition**

It is intended that the Acquisition will be made by UK Water and implemented by way of a court-sanctioned scheme of arrangement between Northumbrian and the Scheme Shareholders under Part 26 of the Companies Act. The procedure involves, *inter alia*, an application by Northumbrian to the Court to sanction the Scheme and to confirm the cancellation of all the Scheme Shares, in consideration for which the Scheme Shareholders will receive cash on the basis set out in paragraph 2 above. The cancellation of the Scheme Shares and the subsequent issue of new Northumbrian Shares to UK Water provided for in the Scheme will result in Northumbrian becoming a wholly-owned subsidiary of UK Water.

The implementation of the Scheme will be subject to the Conditions and certain further terms referred to in Appendix A to this announcement, and to be set out in the Scheme Document. To become effective, the Scheme will require, amongst other things, the following events to occur on or before 27 January 2012 or such later date as UK Water and Northumbrian agree:

- the Scheme being approved by a majority in number of the Scheme Shareholders present and voting, either in person or by proxy, at the Court Meeting (or at any adjournment thereof) representing 75 per cent. or more in value of the Scheme Shares voted;
- the special resolution in connection with and required to implement the Scheme (including appropriate amendments to the articles of association of Northumbrian) being duly passed by Scheme Shareholders representing not less than 75 per cent. of the votes cast at the General Meeting (or at any adjournment thereof);
- the sanction of the Scheme and the confirmation of the associated Reduction of Capital by the Court (in each case without modification or, if agreed by UK Water and Northumbrian, with modification); and
- an office copy of the Court Orders and Statement of Capital being delivered to the Registrar of Companies, and, if the Court so orders for the Scheme to become effective, the registration by the Registrar of Companies of the Reduction Court Order and the Statement of Capital.

Upon the Scheme becoming effective:

- it will be binding on all Scheme Shareholders, irrespective of whether they attended or voted at the Court Meeting or the General Meeting (and if they attended and voted, whether or not they voted in favour); and
- share certificates in respect of the Scheme Shares will cease to be valid and entitlements to Scheme Shares held within the CREST system will be cancelled.

If the Scheme does not become effective on or before 27 January 2012, it will lapse and the Acquisition will not proceed (unless the Panel otherwise consents).

UK Water may elect, with the Panel's consent if required, to implement the Acquisition by way of a Takeover Offer. In this event, that Takeover Offer will be implemented on the same terms, so far as applicable, as those which would apply to the Scheme, subject to appropriate amendments.

The directors of Northumbrian have irrevocably undertaken to accept any Takeover Offer made by UK Water in respect of their entire beneficial holdings of Northumbrian Shares and those of their family members (representing approximately 0.07 per cent. of Northumbrian's existing issued share capital).

## **15. Expected Timetable**

The Scheme Document, containing further information about the Acquisition and notices of the Court Meeting and the General Meeting together with the forms of proxy, will be posted to Northumbrian Shareholders and (for information purposes only) to participants in the Northumbrian Shares Schemes as soon as practicable (and, in any event, not later than 30 August 2011 unless otherwise agreed with the Panel). It is expected that the Court Meeting and the General Meeting to approve the Acquisition will be held at the offices of Hogan Lovells International LLP, Atlantic House, Holborn Viaduct, London EC1A 2FG, United Kingdom.

The Acquisition is conditional on, among other things, the sanction of the Scheme by the Court and approval by a majority in number of Northumbrian Shareholders present and voting in person or by proxy at the Court Meeting, representing not less than 75 per cent. in value of the Northumbrian Shares that are eligible to vote and voted.

Subject to approval of the Northumbrian Shareholders and the satisfaction or waiver of the other Conditions, it is expected that the Scheme will become effective in October 2011.

## **16. Break Fee Letter**

Northumbrian and UK Water have entered into the Break Fee Letter, pursuant to which Northumbrian has agreed to pay to UK Water a break fee of approximately £24.1 million (equal to approximately one per cent. of Northumbrian's market capitalisation based on the offer price of 465 pence per Northumbrian Share) if, after the date of this announcement but prior to the Acquisition lapsing or being withdrawn, a Competing Proposal or possible Competing Proposal is announced by Northumbrian or any other person (whether or not on a pre conditional basis and whether pursuant to Rule 2.4 or Rule 2.5 of the City Code, or otherwise) and that Competing Proposal or possible Competing Proposal, or any other Competing Proposal that is announced (whether or not on a pre-conditional basis and whether pursuant to Rule 2.4 of the City Code, Rule 2.5 of the City Code or otherwise) prior to the Acquisition lapsing or being withdrawn, subsequently becomes effective, becomes or is declared unconditional in all respects or is otherwise completed.

If the Break Fee becomes payable, Northumbrian shall pay the break fee by not later than five Business Days after the date on which the relevant Competing Proposal becomes effective, becomes or is declared unconditional in all respects or is otherwise completed.

## **17. Disclosure of interests in Northumbrian**

Except for the irrevocable undertakings referred to in paragraph 7 above, as at 1 August 2011 (the latest practicable date prior to the date of this announcement), neither UK Water, nor any of the directors of UK Water or any member of the UK Water Group, nor, so far as the directors of UK Water are aware, any person acting in concert with UK Water for the purposes of the Acquisition has any interest in, right to subscribe for, or has borrowed or lent any Northumbrian Shares or securities convertible or exchangeable into Northumbrian Shares (including pursuant to any long exposure, whether conditional or absolute, to changes in the prices of securities) or right to subscribe for or purchase the same or hold any options (including traded options) in respect of or has any right to acquire any Northumbrian Shares or derivatives referenced to Northumbrian Shares ("**Northumbrian Securities**"), nor does any such person have any short position (whether conditional or absolute and whether in the money or otherwise) including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery in relation to Northumbrian Securities.

However, it is intended that, in the period prior to the Scheme Court Hearing, UK Water will acquire at least one Northumbrian Share which will mean that UK Water will be a member of Northumbrian on the Effective Date and accordingly there will be no requirement under section 593 of the Companies Act 2006 for an independent valuation of the new Northumbrian Shares to be allotted to UK Water under the Scheme.

## **18. De-listing, cancellation of trading and re-registration**

It is intended that dealings in Northumbrian Shares will be suspended at 5.00 p.m. London time on the Business Day prior to the Effective Date. It is intended that UK Water will procure that Northumbrian applies to the London Stock Exchange to cancel the admission to trading of the Northumbrian Shares on the London Stock Exchange's main market for listed securities and to the UK Listing Authority to cancel the listing of the Northumbrian Shares on the Official List, subject to applicable rules and requirements of the London Stock Exchange, such cancellations to take effect on or shortly after the Effective Date.

On the Effective Date, Northumbrian will become a wholly-owned subsidiary of UK Water and share certificates in respect of Northumbrian Shares will cease to be valid and should be destroyed. In addition, on the Effective Date, entitlements to Northumbrian Shares held within the CREST system will be cancelled. It is also intended that, as part of the Scheme, Northumbrian will be re-registered as a private limited company under the relevant provisions of the Companies Act.

## 19. Overseas shareholders

The availability of the Acquisition or the distribution of this announcement to Northumbrian Shareholders who are not resident in the United Kingdom may be affected by the laws of their relevant jurisdiction. Such persons should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction. Northumbrian Shareholders who are in any doubt regarding such matters should consult an appropriate independent professional adviser in the relevant jurisdiction without delay.

This announcement does not constitute an offer for sale of any securities or an offer or an invitation to purchase any securities. Northumbrian Shareholders are advised to read carefully the Scheme Document and related forms of proxy once these have been dispatched.

## 20. Northumbrian issued share capital

In accordance with Rule 2.10 of the City Code, Northumbrian confirms that there are 518,623,845 Northumbrian Shares in issue. The International Securities Identification Number for Northumbrian Shares is GB0033029744.

## 21. General

The Acquisition will comply with, and the Scheme will be subject to, the applicable rules and regulations of the UK Listing Authority, the London Stock Exchange and the City Code.

The Scheme will be governed by English law and will be subject to the jurisdiction of the English courts. The Scheme will also be subject to the Conditions and the further terms set out in Appendix A to this announcement and to the full terms and Conditions to be set out in the Scheme Document.

Appendix B to this announcement contains the bases and sources of certain information contained in this announcement. Appendix C provides details of the irrevocable undertakings and letters of intent received by UK Water. Appendix D contains definitions of certain terms used in the summary and in this announcement.

In accordance with Rule 19.11 of the City Code, a copy of this announcement will be published on the following websites: [www.nwg.co.uk](http://www.nwg.co.uk) and [www.cki.com.hk](http://www.cki.com.hk).

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### **Further Information**

*This announcement is not intended to, and does not, constitute, or form part of, an offer or invitation to sell or the solicitation of an offer to subscribe for or buy or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise, nor shall there be any sale, issuance or transfer of the securities in any jurisdiction in contravention of applicable law. Any vote in respect of the Scheme or other response in relation to the Acquisition should be made only on the basis of the information in the Scheme Document or any document by which the Acquisition is made. Northumbrian and UK Water urge Northumbrian Shareholders to read the Scheme Document when it becomes available because it will contain important information relating to the Acquisition.*

*Whether or not certain Northumbrian Shares are voted at the Court Meeting or the General Meeting, if the Scheme becomes Effective, those Northumbrian Shares will be cancelled pursuant to the Scheme in return for the payment of 465 pence in cash per Northumbrian Share.*

*RBC and HSBC, which are authorised and regulated in the United Kingdom by the Financial Services Authority, are acting for UK Water and no one else in connection with the Acquisition and this announcement and will not be responsible to anyone other than UK Water for providing the protections afforded to their respective clients or for providing advice in connection with the Acquisition or any matter referred to herein.*

*Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFin – Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of Deutsche Bank AG's authorisation and regulation by the Financial Services Authority are available on request. Deutsche Bank AG, London Branch is acting as financial adviser to Northumbrian and no one else in connection with the contents of this announcement and will not be responsible to anyone other than Northumbrian for providing the protections afforded to clients of Deutsche Bank AG, London Branch, nor for providing advice in relation to any matters referred to herein.*

### **Overseas Jurisdictions**

*The availability of the Acquisition to Northumbrian Shareholders who are not resident in and citizens of the United Kingdom may be affected by the laws of the relevant jurisdictions in which they are located or of which they are citizens. Persons who are not resident in the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdictions. Further details in relation to overseas shareholders will be contained in the Scheme Document.*

*The release, publication or distribution of this announcement in jurisdictions other than in the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe, any applicable requirements. Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies involved in the Acquisition disclaim any responsibility or liability for*

*the violation of such restrictions by any person. This announcement has been prepared for the purposes of complying with English law, the Listing Rules, the rules of the London Stock Exchange and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of any jurisdiction outside the United Kingdom.*

*The Acquisition will not be made, directly or indirectly, in, into or from any jurisdiction where to do so would violate the laws in that jurisdiction. Accordingly, copies of this announcement and formal documentation relating to the Acquisition will not be and must not be, mailed or otherwise forwarded, distributed or sent in, into or from any jurisdiction where to do so would violate the laws of that jurisdiction.*

### **Notice to US investors**

*US Holders should note that the Acquisition relates to the shares of a UK company, is subject to UK disclosure requirements (which are different from those of the United States) and is proposed to be made by means of a scheme of arrangement provided for under English law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules under the US Exchange Act. Accordingly, the Scheme is subject to the disclosure requirements and practices applicable in the UK to schemes of arrangement which differ from the disclosure requirements of the United States tender offer rules. Financial information included in this announcement has been prepared, unless specifically stated otherwise, in accordance with accounting standards applicable in the UK and thus may not be comparable to the financial information of United States companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. If UK Water exercises its right to implement the Acquisition by way of a Takeover Offer, the Takeover Offer will be made in compliance with applicable United States laws and regulations.*

*The receipt of cash pursuant to the Acquisition by a US Holder as consideration for the cancellation of its Northumbrian Shares pursuant to the Scheme may be a taxable transaction for United States federal income tax purposes and under applicable United States state and local, as well as foreign and other, tax laws. Each Northumbrian Shareholder is urged to consult his independent professional adviser immediately regarding the tax consequences of the Acquisition applicable to him.*

*It may be difficult for US Holders to enforce their rights and any claim arising out of the US federal securities laws, since Northumbrian is located in a non-US jurisdiction, and some or all of its officers and directors may be residents of a non-US jurisdiction. US Holders may not be able to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.*

*In accordance with normal UK practice and pursuant to Rule 14e-5(b) of the US Exchange Act, UK Water or its nominees, or its brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, Northumbrian Shares outside of the United States, other than pursuant to the Acquisition, until the date on which the Acquisition and/or Scheme becomes effective, lapses or is otherwise withdrawn. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be disclosed as required in the UK, will be reported to the Regulatory News Service of the London Stock Exchange and will be available on the London Stock Exchange website at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.*

### **Forward-looking Statements**

*This announcement (including information incorporated by reference in this announcement), oral statements made regarding the Acquisition, and other information published by UK Water and Northumbrian contain statements that are or may be deemed to be "forward-looking statements",*

*including for the purposes of the US Private Securities Litigation Reform Act of 1995. These statements are prospective in nature and are not based on historical facts, but rather on the current expectations of the management of UK Water and Northumbrian about future events and are naturally subject to uncertainty and changes in circumstances which could cause actual events to differ materially from the future events expected or implied by the forward-looking statements. The forward-looking statements contained herein include statements about the expected effects of the Acquisition on Northumbrian, UK Water, the expected timing and scope of the Acquisition, synergies, other strategic options and all other statements in this announcement other than historical facts. Forward-looking statements may (but will not always) include, without limitation, statements typically containing words such as “targets”, “plans”, “aims”, “intends”, “expects”, “anticipates”, “believes”, “estimates”, “will”, “may”, “budget”, “forecasts” and “should” and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. These forward-looking statements are not guarantees of future performance and have not been reviewed by the auditors of UK Water or Northumbrian. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the satisfaction of the Conditions to the Acquisition, as well as additional factors, such as changes in economic conditions, changes in the level of capital investment, success of business and operating initiatives and restructuring objectives, customers’ strategies and stability, changes in the regulatory environment, fluctuations in interest and exchange rates, the outcome of litigation, government actions and natural phenomena such as floods, earthquakes and hurricanes. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. Investors should not place undue reliance on any forward-looking statements and neither UK Water nor Northumbrian, nor any of their respective advisors, associates, directors or officers undertakes any obligation to update publicly, express by disclaim or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required or provides any representation, assurance or guarantee that the occurrence of events expressed or implied in any forward-looking statement in this announcement will actually occur.*

### **Not a profit forecast**

*No statement in this announcement is intended as a profit forecast or profit estimate and no statement in this announcement should be interpreted to mean that the future earnings per share of the UK Water group as enlarged by the Acquisition, UK Water and/or Northumbrian for current or future financial years will necessarily match or exceed the historical or published earnings per share of UK Water or Northumbrian.*

### **Dealing Disclosure Requirements**

*Under Rule 8.3(a) of the City Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified. An Opening Position Disclosure must contain details of the person’s interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a paper offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.*

*Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any paper offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any paper offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of the relevant dealing.*

*If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).*

*Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure, you should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129.*

## APPENDIX A

### CONDITIONS AND CERTAIN FURTHER TERMS OF THE SCHEME AND THE ACQUISITION

#### Part A: Conditions of the Acquisition

1. The Acquisition will, if it is implemented by way of the Scheme, be conditional upon the Scheme becoming unconditional and becoming effective, subject to the City Code, by not later than 27 January 2012 or such later date (if any) as UK Water and Northumbrian may, with the consent of the Panel, agree and (if required) the Court may approve.
2. The Scheme will be conditional upon:
  - (a) the approval of the Scheme by a majority in number of the Scheme Shareholders present and voting, either in person or by proxy, at the Court Meeting (or at any adjournment thereof), representing 75 per cent. or more in value of the Scheme Shares held by such holders;
  - (b) the special resolution(s) required to approve and implement the Scheme, to be set out in the notice of the General Meeting, being duly passed by the requisite majority at the General Meeting (or at any adjournment thereof);
  - (c) the sanction of the Scheme and the confirmation of the Reduction of Capital by the Court (in each case without modification or, if agreed by UK Water and Northumbrian, with modification); and
  - (d) an office copy of the Court Orders and Statement of Capital being delivered to the Registrar of Companies, and, if the Court so orders for the Scheme to become effective, the registration by the Registrar of Companies of the Reduction Court Order and the Statement of Capital.
3. In addition, Northumbrian and UK Water have agreed that, subject to Part B below, the Scheme will be conditional upon the following matters and, accordingly, the necessary actions to make the Scheme effective will not be taken unless the following Conditions (as amended, if appropriate) have been satisfied or waived:
  - (a) if the Acquisition constitutes a concentration with a Community dimension as defined in Council Regulation (EC) No.139/2004 (the “**EU Merger Regulation**”), either:
    - (i) the European Commission deciding, in terms and in a form reasonably satisfactory to UK Water, that it does not intend to initiate proceedings under Article 6(1)(c) of the EU Merger Regulation in relation to the proposed acquisition of control of Northumbrian by UK Water and/or any Consortium Member, or the European Commission being deemed to have so decided in accordance with Article 10(6) of the EU Merger Regulation; or
    - (ii) if the European Commission has adopted a decision pursuant to Article 9(3) of the Regulation (or is deemed under Article 9(5) of the Regulation to have adopted such a decision) to refer the Acquisition in whole or part to the UK’s Office of Fair Trading:
      - (A) approval having been obtained (whether by decision, expiry or termination of waiting periods or otherwise) from the UK’s Office of Fair Trading to which the whole or any part of the Acquisition has been referred in terms and in a form reasonably satisfactory to UK Water; and

- (B) if only part of the Acquisition has been so referred, the European Commission having adopted a decision referred to in clause 3(a)(i) in respect of that part of the Acquisition not so referred to such competent authority; and
- (b) other than as provided for in Condition at 3(a), where any EU Member State has taken or indicated that it may take measures to protect legitimate interests pursuant to Article 21(4) of the Regulation, such approval having been obtained or waiting periods having been observed and the Acquisition therefore having been permitted to proceed either in terms and in a form reasonably satisfactory to UK Water.
- (c) other than in respect of the Conditions at 3(a) and 3(b), all notifications and filings which are necessary or appropriate in the context of the Acquisition having been made, all appropriate waiting and other time periods (including any extensions of such waiting and other time periods) under any applicable legislation or regulation of any relevant jurisdiction having expired, lapsed or been terminated (as appropriate) and all statutory or regulatory obligations in any relevant jurisdiction having been complied with in all material respects in each case in connection with the Scheme or the Acquisition, or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, Northumbrian or any other member of the Wider Northumbrian Group by any member of the Wider UK Water Group or the carrying on by any member of the Wider Northumbrian Group of its business in the ordinary course as at the date hereof, excluding in all such cases any obligation to obtain approval of the Acquisition from the shareholders of any member of the Wider UK Water Group;
- (d) all material Authorisations in any jurisdiction which are necessary or appropriate for, or in respect of, or required for the implementation of, the Scheme or the Acquisition, or any acquisition of or any proposed acquisition of any shares in, or control or management of, Northumbrian or any other member of the Wider Northumbrian Group by UK Water or any member of the Wider UK Water Group having been obtained in terms and in a form satisfactory to UK Water from any Third Parties (excluding in all such cases any Authorisations from the shareholders of any member of the Wider UK Water Group) and all such Authorisations remaining in full force and effect and no such Third Party or relevant person or body having given notice of its intention to revoke, suspend, restrict, modify or not to renew any of the same, in each case where the absence of such Authorisation would be material in the context of the Acquisition;
- (e) all material Authorisations in any jurisdiction which are necessary or appropriate to carry on the business of any member of the Wider Northumbrian Group remaining in full force and effect and there being no intimation of any intention to revoke, suspend, restrict, modify or not to renew the same, in each case where the absence of such Authorisation would be material in the context of the Acquisition;
- (f) with the exception of any modification proposed by Ofwat with respect to the Instrument of Appointment, no Third Party having intervened and there not continuing to be outstanding any statute, regulation, order or decision of any Third Party in each case that would:
- (i) make the Scheme or the Acquisition or, in each case, its implementation illegal, prohibited, void or unenforceable under the laws of any jurisdiction; or
- (ii) make the acquisition or proposed acquisition of any shares in, or control or management of, Northumbrian or any member of the Wider Northumbrian Group by UK Water or any member of the Wider UK Water Group illegal, void or unenforceable in any jurisdiction; or

- (iii) otherwise directly or indirectly prevent, prohibit, restrict, restrain, delay or interfere in the implementation of, or impose additional conditions or obligations with respect to, or otherwise impede, challenge, interfere with, or require amendment to, the Scheme or the Acquisition or any acquisition or proposed acquisition of Northumbrian Shares or the acquisition of control or management of Northumbrian or the Wider Northumbrian Group by UK Water or any member of the Wider UK Water Group, in each such case to an extent which is material in the context of the Acquisition; or
- (iv) require, prevent or materially delay the divestiture or alter the terms for any proposed divestiture by any member of the Wider UK Water Group of any Northumbrian Shares or other securities in Northumbrian or of all or any part of their respective businesses, assets or property, or impose any limitation on the ability of any member of the Wider UK Water Group or the Wider Northumbrian Group to conduct any of their respective businesses or own or control any of their respective assets or property or any part thereof in each such case to an extent which is material in the context of the Acquisition; or
- (v) limit or delay, or impose any limitation on the ability of any member of the Wider UK Water Group or any member of the Wider Northumbrian Group to acquire or hold or exercise effectively, directly or indirectly, all or any rights of ownership in respect of shares or other securities or the equivalent in any member of the Wider Northumbrian Group or to exercise management control over any member of the Wider Northumbrian Group or any member of the Wider UK Water Group; or
- (vi) except pursuant to sections 974 to 991 of the Companies Act, require any member of the Wider UK Water Group or of the Wider Northumbrian Group to acquire or to offer to acquire any shares or other securities (or the equivalent) in any member of the Wider Northumbrian Group or any member of the Wider UK Water Group owned by any third party or to sell or offer to sell any shares or other securities (or their equivalent) or any interest in any of the assets owned by any member of the Wider UK Water Group or the Wider Northumbrian Group, in each such case to an extent which is material in the context of the Acquisition; or
- (vii) limit the ability of any member of the Wider UK Water Group or the Wider Northumbrian Group to conduct or integrate or coordinate its business, or any part of it, with the businesses or any part of the businesses of any other member of the Wider UK Water Group or of the Wider Northumbrian Group; or
- (viii) result in any member of the Wider UK Water Group or the Wider Northumbrian Group ceasing to be able to carry on business under any name under which it presently does so or ceasing to be able to use in its business any name, trademark or other intellectual property right which it as present uses in each case on the same basis and terms as at present apply to an extent which is material in the context of the Wider UK Water Group taken as a whole or the Wider Northumbrian Group taken as a whole; or
- (ix) otherwise adversely affect any or all of the businesses, assets, profits, financial or trading position of any member of the Wider UK Water Group or the Wider Northumbrian Group in each case to the extent that it is material in the context of the Wider UK Water Group or the Wider Northumbrian Group taken as a whole,

and all applicable waiting and other time periods during which any Third Party could announce or notify any decision to take, institute, implement or threaten any such

action, proceedings, suit, investigation, reference or enquiry, or make, propose or enact any statute, regulation, decision or order or take any measures or other steps or require any action to be taken or information to be provided or otherwise intervene under any applicable legislation or regulation of any relevant jurisdiction having expired, lapsed or been terminated;

- (g) since 31 March 2011, and except as Disclosed, there being no provision of any agreement, arrangement, licence, permit, franchise or other instrument to which any member of the Wider Northumbrian Group is a party or by or to which any such member, or any of its assets is or are or may be bound, entitled or subject or any circumstance which, in each case as a consequence of the Scheme or the Acquisition or of the acquisition or proposed acquisition of all or any part of the issued share capital or other securities in, or control or management of, Northumbrian or any other member of the Wider Northumbrian Group by any member of the Wider UK Water Group or otherwise, would or might be expected to result in, to an extent which is or would be material in the context of the Wider Northumbrian Group taken as a whole:
- (i) any assets or interests of any member of the Wider Northumbrian Group being or falling to be disposed of or charged in any way or ceasing to be available to any member of the Wider Northumbrian Group or any right arising under which any such asset or interest could be required to be disposed of or charged in any way or could cease to be available to any member of the Wider Northumbrian Group otherwise than in the ordinary course of business; or
  - (ii) any moneys borrowed by or other indebtedness or liabilities (actual or contingent) of, or any grant available to, any member of the Wider Northumbrian Group being or becoming repayable or capable of being declared repayable immediately or earlier than its stated repayment date or the ability of such member of the Wider Northumbrian Group to borrow monies or incur any borrowing or indebtedness becoming or being capable of becoming withdrawn, inhibited or prohibited; or
  - (iii) any such agreement, arrangement, licence, permit, franchise or instrument, or the rights, liabilities, obligations or interests of any member of the Wider Northumbrian Group thereunder being, or being capable of being, terminated or adversely modified or affected or any adverse action being taken or any obligation or liability arising thereunder; or
  - (iv) the rights, liabilities, obligations, interests or business of any member of the Wider Northumbrian Group under any such arrangement, agreement, licence, permit, franchise or other instrument or the interests or business of any such member in or with any other person, firm, company or body (or any arrangement or arrangements relating to any such interests or business) being terminated or adversely modified or affected; or
  - (v) the financial or trading position of any member of the Wider Northumbrian Group being prejudiced or adversely affected; or
  - (vi) the creation of any mortgage, charge or other security interest over the whole or any part of the business, property, assets or interests of any member of the Wider Northumbrian Group or any such mortgage, charge or other security interest (whenever created, arising or having arisen) becoming enforceable or being enforced; or
  - (vii) any member of the Wider Northumbrian Group ceasing to be able to carry on business under any name under which or on the terms on which it currently

does so or any person presently not able to carry on business under any name under which any member of the Wider Northumbrian Group currently does becoming able to do so; or

- (viii) the creation of actual or contingent liabilities by any member of the Wider Northumbrian Group; or
- (ix) the ability of any member of the Wider UK Water Group to carry on any business or activity being adversely affected in any material respect,

and no event having occurred which, under any provision of any such agreement, arrangement, licence, permit, franchise or other instrument could result in any of the events or circumstances which are referred to paragraphs (i) to (ix) (inclusive) of this Condition 3(g) arising;

- (h) since 31 March 2011, and except as Disclosed, no member of the Wider Northumbrian Group having:
  - (i) issued or agreed to issue or authorised or proposed the issue or grant of additional shares of any class or securities convertible into or exchangeable for, rights, warrants or options to subscribe for or acquire, any such shares or convertible securities or transferred or sold any shares out of treasury, other than (A) as between Northumbrian and wholly-owned subsidiaries of Northumbrian or between such wholly-owned subsidiaries and (B) any shares issued or transferred from treasury upon the exercise of options or the vesting of awards granted under the Northumbrian Share Schemes); or
  - (ii) redeemed, purchased, repaid or reduced or proposed the redemption, purchase, repayment or reduction of any part of its share capital or made or proposed the making of any other change to its share capital (other than pursuant to the implementation of the Scheme or the Acquisition); or
  - (iii) made or authorised any change in its loan capital (save as between Northumbrian and its wholly-owned subsidiaries, and which would be material in the context of the Wider Northumbrian Group taken as a whole); or
  - (iv) recommended, declared, paid or made or proposed to recommend, declare, pay or make any dividend, bonus issue or other distribution whether payable in cash or otherwise; or
  - (v) (other than as a transaction between Northumbrian or a wholly-owned subsidiary of Northumbrian or between such wholly-owned subsidiaries) merged with or demerged from, or acquired, any body corporate, partnership or business or authorised or proposed or announced any intention to propose the same; or
  - (vi) acquired or disposed of, transferred, mortgaged or charged, or created or granted any security interest over, any assets or any right, title or interest in any assets (including shares and trade investments) or authorised or proposed or announced any intention to propose any acquisition, disposal, transfer, mortgage, charge or creation or grant of any mortgage, charge or other security interest (which in any case is material in the context of the Wider Northumbrian Group taken as a whole); or
  - (vii) issued or authorised or proposed the issue of, or made any changes to, any debentures or incurred or, save in the ordinary course of business, increased any borrowings, indebtedness or liability (actual or contingent) of any

aggregate amount which is material in the context of the Wider Northumbrian Group taken as a whole; or

- (viii) entered into or varied, or authorised or proposed the entry into or variation of, or announced its intention to enter into or vary, any agreement, transaction, arrangement, contract or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, onerous or unusual nature or magnitude or could involve an obligation of such nature or magnitude or which is or could be restrictive to the existing business of any member of the Wider Northumbrian Group or which is other than in the ordinary course of business and which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
- (ix) other than in relation to the implementation of the Scheme or Acquisition, entered into, implemented, effected, authorised or proposed or announced its intention to enter into, implement, effect, authorise or propose any merger, demerger, contract, reconstruction, amalgamation, scheme, commitment or other transaction or arrangement in respect of itself or another member of the Wider Northumbrian Group which in any case is material in the context of the Northumbrian Group taken as a whole; or
- (x) waived or compromised any claim which is material in the context of the Wider Northumbrian Group taken as a whole; or
- (xi) entered into or varied or made any offer (which remains open for acceptance) to enter into or vary the terms of any contract, agreement or arrangement with any of the directors or senior executives of Northumbrian or any member of the Northumbrian Group; or
- (xii) taken or proposed any corporate action or had any legal proceedings instituted or threatened against it or petition presented or order made for its winding-up (voluntarily or otherwise), dissolution or reorganisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of all or any of its assets and revenues or for any analogous proceedings or steps in any jurisdiction or for the appointment of any analogous person in any jurisdiction; or
- (xiii) been unable, or admitted in writing that it is unable, to pay its debts or has stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business; or
- (xiv) other than as required by the implementation of the Scheme or the Acquisition, made any alteration to its memorandum or articles of association, or other incorporation documents which is material in the context of the Acquisition; or
- (xv) made or agreed or consented to:
  - (A) any change to:
    - (1) the terms of the trust deeds constituting the pension schemes established for its directors, employees or their dependants; or
    - (2) the benefits which accrue or to the pensions which are payable thereunder; or
    - (3) the basis on which qualification for, or accrual or entitlement to such benefits or pensions are calculated or determined; or

- (4) the basis upon which the liabilities (including pensions) or such pension schemes are funded or made,  
  
in each case, which has an effect that is material in the context of the Wider Northumbrian Group taken as a whole; or
    - (B) any change to the trustees of such pension schemes, including the appointment of a trust corporation; or
  - (xvi) other than as required by the implementation of the Scheme or the Acquisition, proposed, agreed to provide or modified the terms of any share option scheme, incentive scheme or other benefit relating to the employment or termination of employment of any person employed by the Wider Northumbrian Group which, in each case, is material in the context of the Wider Northumbrian Group taken as a whole;
  - (xvii) entered into any agreement, commitment or arrangement or passed any resolution or made any offer (which remains open for acceptance) or proposed or announced any intention with respect to any of the transactions, matters or events referred to in this Condition 3(h).
- (i) since 31 March 2011, and except as Disclosed:
- (i) no litigation or arbitration proceedings, prosecution, investigation or other legal proceedings having been announced, implemented, instituted, threatened or remaining outstanding by, against or in respect of, any member of the Wider Northumbrian Group or to which any member of the Wider Northumbrian Group is or may become a party (whether as claimant, defendant or otherwise) which is material in the context of the Wider Northumbrian Group taken as a whole; or
  - (ii) no adverse change or deterioration having occurred in the business, assets, financial or trading position, assets or profits of any member of the Wider Northumbrian Group which is material in the context of the Wider Northumbrian Group taken as a whole; or
  - (iii) no enquiry or investigation by, or complaint or reference to, any Third Party against or in respect of any member of the Wider Northumbrian Group having been threatened, announced, implemented or instituted or remaining outstanding by, against or in respect of, any member of the Wider Northumbrian Group which in any such case is material in the context of the Wider Northumbrian Group taken as a whole; or
  - (iv) no member of the Wider Northumbrian Group having conducted its business in breach of any applicable laws and regulations in any material respect which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
  - (v) no contingent or other liability of any member of the Wider Northumbrian Group having arisen or become apparent or increased which is material in the context of the Wider Northumbrian Group taken as a whole; or
  - (vi) no steps having been taken which are likely to result in the withdrawal (without replacement), cancellation or termination of any licence, permit, authorisation or consent held by any member of the Wider Northumbrian Group which is material in the context of the Wider Northumbrian Group taken as a whole;
- (j) UK Water not having discovered other than to the extent otherwise Disclosed:

- (i) that any financial or business or other information concerning the Wider Northumbrian Group that has been Disclosed is misleading or contains any misrepresentation of fact or omits to state a fact necessary to make any information contained therein not misleading to an extent which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
- (ii) that any member of the Wider Northumbrian Group is subject to any liability (actual or contingent) which is not disclosed in Northumbrian's annual report and accounts for the financial year ended 31 March 2011 and which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
- (iii) any information which affects the import of any information Disclosed to an extent which is material in the context of the Wider Northumbrian Group; or
- (iv) that any past or present member of the Wider Northumbrian Group has not complied with any applicable legislation or regulations of any jurisdiction with regard to the use, treatment, handling, storage, transport, release, disposal, discharge, spillage, leak or emission of any waste or hazardous substance or any substance likely to impair the environment or harm human health, or otherwise relating to environmental matters or the health and safety of any person, or that there has otherwise been any such use, treatment, handling, storage, transport, release, disposal, discharge, spillage, leak or emission (whether or not this constituted a non compliance by any person with any legislation or regulations and wherever the same may have taken place) which, in any case, would be likely to give rise to any liability (whether actual or contingent) or cost on the part of any member of the Wider Northumbrian Group which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
- (v) that there is, or is likely to be, any liability, whether actual or contingent, to make good, repair, reinstate or clean up any property now or previously owned, occupied or made use of by any past or present member of the Wider Northumbrian Group or any other property or any controlled waters under any environmental legislation, regulation, notice, circular, order or other lawful requirement of any relevant authority or third party or otherwise which in any case is material in the context of the Wider Northumbrian Group taken as a whole.

#### **Part B: Certain further terms of the Acquisition**

4. Conditions 3(a) to 3(j) (inclusive) must each be fulfilled or determined by UK Water to be or to remain satisfied or (if capable of waiver) be waived by no later than 11.59 p.m. on the date immediately preceding the date of the Scheme Court Hearing, failing which the Scheme will lapse.
5. Subject to the requirements of the Panel, UK Water reserves the right in its sole discretion to waive all or any of the Conditions 3(a) to 3(j) (inclusive), in whole or in part.
6. UK Water shall be under no obligation to waive (if capable of waiver) or to determine to be satisfied, or to treat as fulfilled, any of the Conditions 3(a) to 3(j) (inclusive) by a date earlier than that date specified in Condition 1 for the fulfilment thereof notwithstanding that some of the other Conditions 3(a) to 3(j) (inclusive) may at some earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.

7. UK Water reserves the right to elect to implement the Acquisition by way of a Takeover Offer (as defined in section 974 of the Companies Act), subject to the Panel's consent if required. In such event, such Takeover Offer will be implemented on the same terms and conditions (subject to appropriate amendments, including (without limitation) an acceptance condition set at 75 per cent. (or such percentage (being more than 50 per cent.) as UK Water may decide (in each case, subject to the Panel's consent)) of the shares to which such Takeover Offer relates, so far as applicable, as those which would apply to the Scheme.
8. If the Panel requires UK Water to make an offer or offers for any Northumbrian Shares under the provisions of Rule 9 of the City Code, UK Water may make such alterations to the Conditions, including Condition 1, as are necessary to comply with the provisions of that Rule.
9. The Acquisition will be on the terms and will be subject to, *inter alia*, the conditions which will be set out in the Scheme Document and such further terms as may be required to comply with the Listing Rules and the provisions of the City Code.
10. The Acquisition will lapse and the Scheme will not proceed if, prior to the date of the Court Meeting, either the European Commission initiates proceedings under Article 6(1)(c) of Council Regulation (EC) No. 139/2004 or the Acquisition is, or any part of the Acquisition is, referred to the Competition Commission.
11. Save to the extent cancelled pursuant to the Scheme, the Northumbrian Shares will be acquired by UK Water fully paid and free from all liens, equitable interests, charges, encumbrances and other third party rights of any nature whatsoever and together with all rights attaching to them, including the right to receive and retain all dividends and distributions (if any) declared, made or payable after the Effective Date.
12. The Acquisition and the Scheme and any forms of proxy will be governed by English law and will be subject to the jurisdiction of the English courts. The City Code applies to the Acquisition.
13. The availability of the Acquisition to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom should inform themselves about and observe any applicable requirements.
14. Each of Conditions shall be regarded as a separate Condition and shall not be limited by reference to any other Condition.

## **APPENDIX B**

### **BASES AND SOURCES AND OTHER INFORMATION**

The value attributed to the entire issued share capital of Northumbrian is based upon: (i) the number of Northumbrian Shares in issue as at close of business on 1 August 2011 being 518,623,845; and (ii) no additional Northumbrian Shares becoming issuable on the exercise of any share options and awards under the Northumbrian Share Schemes.

All prices for Northumbrian Shares have been derived from the Daily Official List and represent the Closing Price on the relevant date.

Unless otherwise stated, the financial information relating to Northumbrian has been extracted or provided (without material adjustment) from Northumbrian's audited annual report and accounts for the year ended 31 March 2011, and, where relevant, prior years.

References to total shareholder returns have been calculated with reference to the aggregate increase in the value of Northumbrian Shares, together with aggregate dividends and other distributions made by the Company to its shareholders over the period, assuming that the Scheme becomes effective.

The information on current trading has been extracted from the Interim Management Statement issued by Northumbrian on 28 July 2011.

## APPENDIX C

### DETAILS OF IRREVOCABLE UNDERTAKINGS AND LETTERS OF INTENT

#### Irrevocable undertakings given by the directors

The following directors of Northumbrian have given irrevocable undertakings (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water:

<i>Name</i>	<i>Number of Northumbrian Shares<sup>1</sup></i>	<i>Per cent. of Northumbrian's Issued Share Capital</i>
Sir Derek Wanless	65,000	0.0125%
Heidi Mottram	606	0.0001%
Chris Green	206,370	0.0398%
Sir Patrick Brown	43,000	0.0083%
Martin Nègre	20,000	0.0039%
Alex Scott-Barrett	20,000	0.0039%
Total	<u>354,976</u>	<u>0.0684%</u>

The irrevocable undertakings given by the directors of Northumbrian listed above will lapse if:

- UK Water announces that it does not intend to proceed with the Scheme or make the Takeover Offer (as applicable) and no new, revised or replacement Scheme or Takeover Offer is announced in accordance with Rule 2.5 of the City Code at the same time; or
- the Scheme or Takeover Offer lapses or is withdrawn and no new, revised or replacement Scheme or Takeover Offer has been announced, in accordance with Rule 2.5 of the City Code, in its place or is announced, in accordance with Rule 2.5 of the City Code, at the same time.

#### Irrevocable undertaking given by Ontario Teachers' Pension Plan Board

Ontario Teachers' Pension Plan Board has given an irrevocable undertaking: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water. Ontario Teachers' Pension Plan Board has an interest in 138,776,864 Northumbrian Shares, representing approximately 26.8 per cent. of the existing issued share capital of Northumbrian. It has also undertaken to UK Water not to bid, or participate in any bid, for Northumbrian.

The undertakings given by Ontario Teachers' Pension Plan Board will lapse if:

- the Scheme Document or the Offer document, as the case may be, is not published within 28 days after the date of this announcement (or within such longer period as to which the Panel consents, not to be longer than 60 days);
- UK Water announces that it does not intend to proceed with the Scheme or make the Takeover Offer (as applicable) and no new, revised or replacement Scheme or Takeover Offer is announced in accordance with Rule 2.5 of the City Code at the same time;

<sup>1</sup> This number includes the number of Northumbrian Shares held by family members of the relevant director to which the irrevocable also relates.

- the Scheme or Takeover Offer terminates or is withdrawn (or, in the case of the Scheme, the Scheme otherwise becomes incapable of ever becoming effective) and no new, revised or replacement Scheme or Takeover Offer has been announced, in accordance with Rule 2.5 of the City Code, in its place or is announced, in accordance with Rule 2.5 of the City Code, at the same time; or
- a third party not acting in concert (as such item is defined in the City Code) with UK Water announces a firm intention to make an offer for Northumbrian, whether by offer or scheme of arrangement, at a price equal to or exceeding 488.25 pence per Northumbrian Share.

### Letters of intent

UK Water has received non-binding letters of intent from the shareholders below confirming their intention to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting in respect of the number of Northumbrian Shares set out opposite their name below:

<i>Name</i>	<i>Number of Northumbrian Shares</i>	<i>Per cent. of Northumbrian's Issued Share Capital</i>
JP Morgan Asset Management	19,891,674	3.8
Artemis Investment Management LLP	15,082,281	2.9
Total	<u>34,973,955</u>	<u>6.7</u>

These letters of intent do not state any circumstances in which they will lapse.

## APPENDIX D

### DEFINITIONS

The following definitions apply throughout this announcement unless the context requires otherwise.

<b>“Acquisition”</b>	the direct or indirect acquisition of the entire issued share capital of Northumbrian by UK Water (other than Northumbrian Shares already held by UK Water (if any)), to be effected by way of: (i) the Scheme; or (ii) the Takeover Offer (as the case may be);
<b>“Authorisations”</b>	approvals, authorisations, orders, grants, determinations, recognitions, confirmations, consents, licences, clearances, waivers, certificates, provisions and permissions;
<b>“Barclays Capital”</b>	Barclays Bank plc;
<b>“Break Fee Letter”</b>	the letter entered into by Northumbrian and UK Water on 2 August 2011 relating to the break fee;
<b>“Business Day”</b>	a day (other than a Saturday or Sunday) on which banks in the City of London are generally open for business;
<b>“Cambridge Water”</b>	Cambridge Water plc;
<b>“City Code”</b>	the City Code on Takeovers and Mergers, as amended from time to time;
<b>“CKH”</b>	Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong, the ordinary shares of which are listed on The Stock Exchange of Hong Kong Limited;
<b>“CKI”</b>	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda, the ordinary shares of which are listed on The Stock Exchange of Hong Kong Limited;
<b>“Closing Price”</b>	the closing middle market price of a Northumbrian Share as derived from the Daily Official List;
<b>“Companies Act”</b>	the Companies Act 2006 (as amended, modified, consolidated, re-enacted or replaced from time to time);
<b>“Competing Proposal”</b>	any offer, scheme of arrangement, merger or business combination, or similar transaction, which is announced or entered into, or is proposed, by a third party which is not acting in concert (as defined in the City Code) with UK Water, including any revisions thereof, and the purpose of which is, or would be, to enable that third party (or any other person) to acquire, directly or indirectly, all or a significant proportion (being 30 per cent. or more when aggregated with the shares already held by the third party and any person acting in concert (as defined in the City Code) with that third party) of the share capital of Northumbrian, or all or a significant proportion (being 30 per cent. or more) of its undertaking, assets or business, or any other arrangement or transaction

	or series of the same which is inconsistent with the implementation of the Acquisition;
<b>“Conditions”</b>	the terms and conditions of the Acquisition, as set out in Appendix A of this announcement;
<b>“Consortium”</b>	CKI, CKH and the Foundation;
<b>“Consortium Member”</b>	any one of CKI, CKH and the Foundation;
<b>“Court”</b>	the High Court of Justice in England and Wales;
<b>“Court Meeting”</b>	the meeting or meetings of Scheme Shareholders to be convened by order of the Court pursuant to Part 26 of the Companies Act to approve the Scheme (with or without amendment) including any adjournment or postponement of any such meeting;
<b>“Court Orders”</b>	the Scheme Court Order and the Reduction Court Order;
<b>“Daily Official List”</b>	the daily official list of the London Stock Exchange;
<b>“Deutsche Bank”</b>	Deutsche Bank AG, London Branch;
<b>“Disclosed”</b>	referred to in Northumbrian's annual report and accounts for the financial year ended on 31 March 2011, publicly announced by Northumbrian prior to the date of this announcement (by delivery of an announcement to a Regulatory Information Service) or as otherwise fairly disclosed in writing prior to the date of this announcement to UK Water by or on behalf of Northumbrian in the course of negotiations;
<b>“Effective”</b>	<ul style="list-style-type: none"> <li>(i) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective in accordance with its terms; or</li> <li>(ii) if the Acquisition is implemented by way of a Takeover Offer, such offer having been declared or become unconditional in all respects in accordance with the requirements of the City Code;</li> </ul>
<b>“Effective Date”</b>	<ul style="list-style-type: none"> <li>(i) if the Acquisition is implemented by way of the Scheme, the date that the Scheme becomes effective in accordance with its terms; or</li> <li>(ii) if the Acquisition is implemented by way of a Takeover Offer, the date that such offer is declared or becomes unconditional in all respects in accordance with the requirements of the City Code;</li> </ul>
<b>“Excluded Shares”</b>	<ul style="list-style-type: none"> <li>(i) any Northumbrian Shares held by UK Water; and</li> <li>(ii) any other Northumbrian Shares which Northumbrian and UK Water agree will not be subject to the Scheme;</li> </ul>
<b>“Foundation”</b>	Li Ka Shing Foundation Limited, a company limited by guarantee and incorporated in Hong Kong;
<b>“General Meeting”</b>	the general meeting of Northumbrian Shareholders to be convened in connection with the Scheme to consider and, if

	thought fit, approve certain resolutions in relation to the Scheme and the Acquisition (with or without amendment) and any adjournment thereof;
<b>“HSBC”</b>	HSBC Bank plc;
<b>“Instrument of Appointment”</b>	the instrument of appointment by the Secretary of State for the Environment of Northumbrian Water Limited as a water and sewerage undertaker under sections 11 and 14 of the Water Act 1989 (now sections 6,7,11 and 12 of the Water Industry Act 1991), issued by the Department of the Environment in August 1989;
<b>“Listing Rules”</b>	the listing rules of the UK Listing Authority (as amended from time to time);
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Northumbrian”</b> or the <b>“Company”</b>	Northumbrian Water Group plc, a public limited company incorporated in England and Wales with registered number 04760441;
<b>“Northumbrian Group”</b>	Northumbrian and its subsidiaries and subsidiary undertakings;
<b>“Northumbrian Shareholders”</b>	registered holders of Northumbrian Shares from time to time;
<b>“Northumbrian Shares”</b>	ordinary shares of 10 pence each in the capital of Northumbrian;
<b>“Northumbrian Share Schemes”</b>	the Northumbrian Long-Term Incentive Plan and the Northumbrian Share Incentive Plan;
<b>“Official List”</b>	the Official List of the UK Listing Authority;
<b>“Panel”</b>	the Panel on Takeovers and Mergers;
<b>“RBC”</b>	Royal Bank of Canada Europe Limited;
<b>“Reduction Court Hearing”</b>	the hearing by the Court to confirm the Reduction of Capital;
<b>“Reduction Court Order”</b>	the order of the Court confirming the Reduction of Capital;
<b>“Reduction of Capital”</b>	the proposed reduction of the share capital of Northumbrian in connection with the Scheme under Chapter 10 of Part 17 of the Companies Act;
<b>“Reduction Record Time”</b>	6.00 p.m. on the Business Day immediately before the Reduction Court Hearing;
<b>“Registrar of Companies”</b>	the Registrar of Companies for England and Wales;
<b>“Regulatory Information Service”</b>	one of the regulatory information services authorised by the UK Listing Authority to receive, process and disseminate regulatory information from listed companies;
<b>“Scheme”</b> or <b>“Scheme of Arrangement”</b>	the scheme of arrangement proposed to be made under Part 26 of the Companies Act between Northumbrian and the Scheme Shareholders, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Northumbrian and UK Water, the full terms of

	which will be set out in the Scheme Document or (as the case may be) any supplemental circular(s);
<b>“Scheme Court Hearing”</b>	the hearing of the Court to sanction the Scheme under Section 899 of the Companies Act;
<b>“Scheme Court Order”</b>	the order of the Court sanctioning the Scheme under Section 899 of the Companies Act;
<b>“Scheme Document”</b>	the document containing and setting out, <i>inter alia</i> , the full terms and conditions of the Scheme and containing the notices convening the Court Meeting and General Meeting;
<b>“Scheme Record Time”</b>	the time and date specified as such in the Scheme Document, expected to be 6.00 p.m. London time on the Business Day prior to the Effective Date;
<b>“Scheme Shareholders”</b>	registered holders of Scheme Shares from time to time;
<b>“Scheme Shares”</b>	<p>Northumbrian Shares:</p> <ul style="list-style-type: none"> <li>(i) in issue at the date of the Scheme Document;</li> <li>(ii) (if any) issued after the date of the Scheme Document and prior to the Scheme Voting Record Time; and</li> <li>(iii) (if any) issued on or after the Scheme Voting Record Time and before the Reduction Record Time either on terms that the original or any subsequent holders thereof shall be bound by the Scheme and/or in respect of which the holders thereof shall have agreed to be bound by the Scheme,</li> </ul> <p>but in each case excluding any Excluded Shares;</p>
<b>“Scheme Voting Record Time”</b>	the time and date specified in the Scheme Document by reference to which entitlement to vote at the Court Meeting will be determined;
<b>“Statement of Capital”</b>	the statement of capital approved by the Court and showing with respect to Northumbrian’s share capital, as altered by the Court Order confirming the Reduction of Capital, the information required by section 649 of the Companies Act;
<b>“subsidiary”</b>	has the meaning ascribed to it in Section 1159 of the Companies Act;
<b>“subsidiary undertaking”</b>	has the meaning ascribed to it in Section 1162 of the Companies Act;
<b>“Substantial Interest”</b>	a direct or indirect interest of more than 20 per cent. but less than 50 per cent. of the voting equity capital of an undertaking;
<b>“Takeover Offer”</b>	the offer to acquire the entire issued share capital of Northumbrian by UK Water by means of a takeover offer made pursuant to the City Code;
<b>“Third Party”</b>	any central bank, ministry, government, government department, governmental, quasi-governmental, supranational, statutory, regulatory or investigative body or

	authority (including any national or supranational anti-trust or merger control authority), national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof), trade agency, association, institution or professional or environmental body or any other person or body whatsoever in any relevant jurisdiction, including for the avoidance of doubt, the Panel, but excluding the shareholders of any member of the Wider UK Water Group;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“UK Listing Authority”</b>	the Financial Services Authority, its successor from time to time, or any other body acting in its capacity as the competent authority for listing under the Financial Services and Markets Act 2000;
<b>“UK Water”</b>	UK Water (2011) Limited, a private limited company incorporated in England and Wales with registered number 07509453;
<b>“UK Water Group”</b>	UK Water and its subsidiaries and subsidiary undertakings;
<b>“US” or “United States”</b>	the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia;
<b>“US Exchange Act”</b>	the United States Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder;
<b>“US Holders”</b>	holders of Northumbrian Shares ordinarily resident in the United States or with a registered address in the United States, and any custodian, nominee or trustee holding Northumbrian Shares for persons in the United States or with a registered address in the United States;
<b>“Wider Northumbrian Group”</b>	Northumbrian and the subsidiaries and subsidiary undertakings of Northumbrian and associated undertakings (including any joint venture, partnership, firm or company) and any other undertakings in which Northumbrian and such undertakings (aggregating their interests) have a Substantial Interest; and
<b>“Wider UK Water Group”</b>	UK Water and its group undertakings, any Consortium Member and their respective subsidiaries, subsidiary undertakings and associated undertakings (including any joint venture, partnership, firm or company) and any other undertakings in which UK Water and such undertakings (aggregating their interests) have a Substantial Interest.

References to an enactment include references to that enactment as amended, replaced, consolidated or re-enacted by or under any other enactment before or after the date of this announcement. All references to time in this announcement are to London time unless otherwise stated.





